

Outlook for Canada's Grain Industry

Dr. Harvey G. Brooks, Director
Policy, Trade & Industry Analysis
Canadian Wheat Board

THE WORLD WHEAT OUTLOOK - 1990/91

World wheat production in 1990/91 is expected to rise 52.2 MMT (10%) to 589.0 MMT. This is due substantially to higher production not only in exporting countries but also in importing countries. The 1990/91 U.S. winter wheat harvested area increased 18.8% to 50.6 million acres in response to lower set-aside requirements. U.S. wheat production increased by 19.1 MMT (35%) to a record 74.5 MMT. This was due to an 11.6% increase in harvested acres combined with a substantial yield increase of 21%. Canada's increased wheat production for 1990/91 of 29.4% was fueled by a 3.1% increase in acreage and a 25.4% increase in yield. Overall world average wheat yields for 1990/91 at 2.56 t/ha (37.6 bu/acre) is 12% higher than the five-year average.

Despite increased production among importers world wheat trade (July/June) for 1990/91 is expected to decrease only 2.2 MMT in 1990/91 to 93.9 MMT. This is 12% lower, however, than the record of 107 MMT set in 1984/85. USSR wheat imports are projected to fall 7% to 13 MMT in 1990/91 due in part to their increase in wheat production. Imports are also expected to fall in China (-2.5 MMT), and Iraq (-3.1 MMT). Imports are projected to increase in Brazil (+2.2 MMT), and South Korea (+2 MMT).

Increases in wheat and wheat flour exports are expected for Canada, and Argentina, while decreases are projected for the U.S. and Australia.

World wheat utilization in 1990/91 is projected to increase dramatically by 27.2 MMT to a record 562.9 MMT from 535.7 MMT in 1989/90. This dramatic increase in wheat utilization is due to very low wheat prices relative to coarse grains prices. This is especially true at the international level where export subsidized wheat prices are substantially lower than corn and barley prices. Despite this record consumption, utilization will be lower than production for the first time since the 1986/87 crop year. The USDA forecasts 1990/91 world wheat ending stocks at 145.3 MMT, which represents 26% of world utilization. This is slightly below the average ratio during the 1970's but well below the 30% level of the 1960's.

As the scenario of a large world wheat crop unfolded, combined with GATT talks pressured by large EC export restitutions and large U.S. EEP subsidies, world wheat prices collapsed. U.S. export subsidized prices dropped by US \$98/tonne or 60% for HWORD FOB Gulf from their December, 1989 highs of US \$164/tonne to their September, 1990 lows of US \$66/tonne which was US \$9/tonne less than French soft wheat. Since those lows, U.S. and EC subsidized export prices have improved only modestly, remaining in a trading range of US \$75-85 for French soft wheat FOB Rouen and US \$66-77 for HWORD FOB Gulf wheat.

WORLD WHEAT SUPPLY/DISPOSITION
(July/June)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	-min tonnes-			
Production	502.3	500.3	536.8	589.0
Utilization	530.2	531.6	535.7	562.9
Trade	105.0	96.8	96.1	93.9
Ending Stocks	148.5	117.2	119.1	145.3
Stocks/Utilization	28.0%	22.0%	22.2%	25.8%

WORLD WHEAT PRODUCTION & TRADE
(July/June)

<u>Production</u>	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	-min tonnes-			
U.S.	57.4	49.3	55.4	74.5
Canada	26.0	16.0	24.6	31.8
Australia	12.4	14.1	14.1	15.7
Argentina	8.8	8.4	10.2	11.2
EEC-12	71.4	74.7	78.3	80.6
USSR	83.3	84.4	92.3	108.0
E.Europe	39.9	44.8	44.3	44.7
China	85.8	85.4	90.8	96.5
India	44.3	46.2	54.1	49.7
Others	<u>73.0</u>	<u>77.0</u>	<u>72.7</u>	<u>76.3</u>
World Total	502.3	500.3	536.8	589.0
<u>Exports</u>				
U.S.	43.4	37.6	33.5	27.5
Canada	23.6	13.5	17.0	17.5
Australia	12.2	10.8	10.9	10.5
Argentina	3.8	3.5	5.6	6.6
EEC-12	14.8	21.0	21.0	21.0
Others	<u>7.2</u>	<u>10.4</u>	<u>8.1</u>	<u>10.8</u>
World Total	105.0	96.8	96.1	93.9
<u>Imports</u>				
EEC-12	2.2	2.5	2.5	3.5
USSR	21.5	15.5	14.0	13.0
Japan	5.7	5.4	5.6	5.6
E Europe	3.3	2.6	2.1	2.6
China	15.0	15.5	13.0	10.5
S.Korea (ROK)	4.5	2.8	2.2	4.2
Egypt	6.4	7.0	7.0	6.5
Algeria	3.8	4.2	4.3	4.4
Iran	4.0	3.2	5.2	4.8
Iraq	3.0	3.0	3.4	0.3
Brazil	2.0	0.8	1.5	3.7
Others	<u>33.6</u>	<u>34.3</u>	<u>35.3</u>	<u>34.8</u>
World Total	105.0	96.8	96.1	93.9

THE CANADIAN WHEAT OUTLOOK

Canadian wheat production in 1990 is estimated by Statistics Canada at a record breaking 31.8 MMT. This is a 30% increase over the 1989 crop of 24.6 MMT. Western Canadian wheat production increased to a near record level of 30.4 MMT. Moisture conditions in 1990 were generally good from start to finish, although a few areas (west-central Saskatchewan and east-central Alberta) recorded poor yields. The absence of any sustained heat limited damage in dry areas, however, and where moisture was abundant, record or near record crops were harvested. Yields in 1990 were a record for CWRS production (33 bu/acre) and CWRS production exceeded 24 MMT for the first time. Good harvest conditions resulted in the bulk of the crop grading 1 and 2 CWRS. The Canadian Grain Commission reports only 11% graded 3 CWRS with almost no feed wheat being harvested. Soft white spring wheat and Canada Prairie Spring (CPS) wheat also recorded good quality in 1990. Wheat exports in 1990/91 are projected by Agriculture Canada to increase to 19.2 MMT, an increase of 10% from 1989/90 export levels. Ending stocks are expected to increase to 12.6 MMT from 6.6 MMT in 1989/90.

Canada: Wheat Supply/Disposition (August/July Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u> ^{1/}	<u>1990/91</u> ^{1/}
	- mln tonnes -			
Carryin	12.7	7.3	5.0	6.6
Production	<u>26.0</u>	<u>16.0</u>	<u>24.6</u>	<u>31.8</u>
Total Supply	38.7	23.3	29.6	38.4
Domestic Use	7.9	5.8	5.6	6.6
Exports	<u>23.5</u>	<u>12.4</u>	<u>17.4</u>	<u>19.2</u>
Total Use	<u>31.5</u>	<u>18.2</u>	<u>23.0</u>	<u>25.8</u>
Ending Stocks	<u>7.3</u>	<u>5.0</u>	<u>6.6</u>	<u>12.6</u>
Harvested Area (mln ha)	13.5	12.9	13.6	14.1
Yield (t/ha)	1.93	1.23	1.80	2.26

^{1/} Agriculture Canada Forecast, December 1990

Source: Agriculture Canada, December 1990

THE CANADIAN DURUM OUTLOOK

The International Wheat Council estimates 1990/91 world durum production at 28.5 MMT, up 17% from last year. At the same time they forecast world trade in durum to decrease 5% to 5.0 MMT. Despite decreased acreage Canadian durum production in 1990/91, increased slightly to 4.4 MMT due to near record yields. Trade in Canadian durum is projected by Agriculture Canada at 2.6 MMT, down 8% from 1989/90.

Canada: Durum Supply/Disposition (August/July Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u> 1/	<u>1990/91</u> 1/
	- mln tonnes -			
Carryin	1.6	1.5	0.8	1.3
Production	<u>4.0</u>	<u>2.0</u>	<u>4.1</u>	<u>4.4</u>
Total Supply	5.6	3.5	4.9	5.7
Domestic Use	1.3	0.7	0.8	0.8
Exports	<u>2.8</u>	<u>2.0</u>	<u>2.8</u>	<u>2.6</u>
Total Use	<u>4.1</u>	<u>2.7</u>	<u>3.6</u>	<u>3.4</u>
Ending Stocks	<u>1.5</u>	<u>0.8</u>	<u>1.3</u>	<u>2.3</u>
Harvested Area (mln ha)	2.2	2.3	2.6	2.2
Yield (t/ha)	1.84	0.87	1.57	1.98

1/ Agriculture Canada Forecast, December 1990

Source: Agriculture Canada, December 1990

Canadian Initial Payment

	<u>1987/88</u>	<u>1988/89 1/</u>	<u>1989/90 1/</u>	<u>1990/91</u>	<u>Change</u>
		<u>- Cdn \$/tonne -</u>			
No.1 Canada Western					
Red Spring Wheat	110	150	165	135	-30
No.1 Canada Western					
Amber Durum Wheat	110	175	150	117	-33
No.1 Canada Western					
Barley	60	120	100	90	-10
Special Select Canada					
Western 6-Row Barley	100	175	160	115	-45

1/ Does not include subsequent adjustment payments.

Canadian Wheat and Wheat Flour Exports 1/

(Aug/July Crop Year)

Top Ten Destinations

<u>1989/90</u>		<u>1990/91 2/</u>	
	000 tonnes		000 tonnes
1. China	4,580.8	1. USSR	1,039.1
2. U.S.S.R.	3,496.9	2. China	718.4
3. Japan	1,465.5	3. Iran	653.5
4. Iran	1,445.4	4. S. Korea	589.9
5. Iraq	782.6	5. U.S.A.	529.3
6. Algeria	609.5	6. Japan	485.9
7. Cuba	434.4	7. Algeria	479.6
8. USA	371.6	8. Cuba	358.0
9. Philippines	360.2	9. Brazil	304.8
10. Italy	<u>356.6</u>	10. Venezuela	<u>298.7</u>
Subtotal	13,903.5		5,187.2
Others	<u>3,507.2</u>		<u>2,630.8</u>
Grand Total	<u>17,410.7</u>		<u>7,818.0</u>

1/ includes durum wheat

2/ to December 31, 1990

Source: CGC: Exports of Canadian Grain and Wheat Flour

CANADIAN AREA & PRODUCTION

According to Statistics Canada, harvested area of wheat, rye, and flax increased in 1990, while harvested area for barley, oats and canola decreased significantly. Overall harvested area increased 3% to 24.0 million hectares. Production of the 6 major crops increased to a record 54 MMT, almost 10 MMT above the previous year. Production increased for all of the major grains except oats.

All Canada: Area & Production

	<u>Harvested Area</u>			<u>Production</u>		
	<u>1988</u>	<u>1989 1/</u>	<u>1990 1/</u>	<u>1988</u>	<u>1989 1/</u>	<u>1990 1/</u>
	- 000 ha -			-000 tonnes-		
Winter Wheat	527	411	469	1,347	1,299	1,631
Spring Wheat	10,194	10,604	11,355	12,670	19,181	25,758
Durum	<u>2,266</u>	<u>2,611</u>	<u>2,226</u>	<u>1,979</u>	<u>4,098</u>	<u>4,410</u>
All Wheat	12,987	13,620	14,050	15,996	24,578	31,799
Oats	1,371	1,708	1,489	2,993	3,546	3,507
Barley	4,151	4,658	4,570	10,212	11,666	13,521
Rye	257	501	541	268	873	939
Flax	501	590	725	373	498	935
Canola	<u>3,672</u>	<u>2,904</u>	<u>2,630</u>	<u>4,311</u>	<u>3,096</u>	<u>3,325</u>
6 Major Crops	22,939	23,357	24,005	34,153	44,257	54,026
Summerfallow	8,862	8,365	8,660			

1/ Estimated, December, 1990

Source: Agriculture Canada, December 1990

Total Exports of Canadian Grains

	<u>Crop Year</u>	<u>Aug 1/89 to</u>	<u>Aug 1/90 to</u>
	<u>1989/90</u>	<u>Feb 18/90</u>	<u>Feb 17/91</u>
		- 000 tonnes -	
Wheat	14,409	7,045 1/	7,973 2/
Durum	2,838	1,601	1,655
Oats	528	269	126
Barley	4,230	2,716	2,414
Rye	293	148	174
Flaxseed	444	304	248
Canada	<u>1,971</u>	<u>1,069</u>	<u>976</u>
Total	24,713	13,152	13,566

1/ includes 85,100 tonnes of flour expressed as wheat equivalent

2/ includes 117,000 tonnes of flour expressed as wheat equivalent

Source: Canadian Grain Commission

THE ARGENTINE WHEAT OUTLOOK

In an attempt to promote wheat production and to lessen the impact of the grain trade war, the Argentine government, after successive changes in policy, eliminated export taxes of 15% for the 1990/91 crop. The Argentine wheat crop has recovered from the 1988 drought conditions which limited seeded area and reduced yields below trend. 1990/91 production is forecast at 11.2 MMT, 33% above 1988 levels of 8.4 MMT. In order to stimulate production the government has also reduced taxes built into fuel prices and utility tariffs. By reducing these prices and thereby raising profit margins the Argentine government hopes that Argentine grain exports will increase. Wheat exports are expected to increase marginally to 6.2 MMT in 1990/91.

Argentina: Wheat Supply/Disposition (Dec/Nov Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	- mln tonnes -			
Carryin	0.2	0.8	0.5	0.2
Production	<u>8.8</u>	<u>8.4</u>	<u>10.2</u>	<u>11.2</u>
Total Supply	<u>9.0</u>	<u>9.2</u>	<u>10.7</u>	<u>11.4</u>
Domestic Use	4.5	4.7	4.6	4.7
Exports	<u>3.7</u>	<u>4.0</u>	<u>5.9</u>	<u>6.2</u>
Total Use	8.2	8.7	10.5	10.9
Ending Stocks	0.8	0.5	0.2	0.5
Area harvested (mln ha)	4.8	4.7	5.5	6.0
Yield (t/ha)	1.84	1.79	1.86	2.0

Source: USDA, February 1991

THE AUSTRALIAN WHEAT OUTLOOK

Australian wheat production in 1990/91 is estimated at 15.7 MMT, an increase of 1.6 MMT (11%) from last year's crop. This increase is directly due to an 11% increase in area. Exports are expected to increase only marginally in 1990/91 while Australian ending stocks are expected to increase 1.4 MMT. Major export destinations in 1990/91 include Egypt, Iran, Indonesia, Japan and Yemen.

Payments made to AWB growers were previously linked to the Guaranteed Minimum Price (GMP). Under new legislation, growers will receive a Harvest and Post-harvest payment for wheat delivered to particular pools. In addition farmers may "cash-out" of a pool by applying for a payment in lieu of a final payment for pool wheat. As a result growers have the choice of taking advance plus final payments, advance payments plus cash out, or deferred payments.

With the move away from the GMP, Australian farmers have been more severely affected by low wheat prices in comparison to Canadian, American and EC farmers. With the Harvest Payment set at very low levels and the Australian government only guaranteeing 87½% of the AWB's borrowings, Australian farmers will see AWB pool returns for 1990/91 of about Aus \$120/tonne or Cdn \$109/tonne. This is about \$26/tonne less, or almost 20%, than the initial payment Canadian farmers can expect as a minimum payment for their wheat.

Such low expected wheat pool returns have precipitated a crisis in Australian agriculture, which has resulted in the government examining *ad hoc* measures to deal with plummeting farm incomes.

Australia: Wheat Supply/Disposition (Oct/Sept Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	- mln tonnes -			
Carryin	3.8	2.8	2.6	2.8
Production	<u>12.4</u>	<u>14.1</u>	<u>14.1</u>	<u>15.7</u>
Total Supply	<u>16.2</u>	<u>16.9</u>	<u>16.7</u>	<u>18.5</u>
Domestic Use	3.5	2.8	3.1	3.3
Exports	<u>9.9</u>	<u>11.4</u>	<u>10.8</u>	<u>11.0</u>
Total Use	13.4	14.2	13.9	14.3
Ending Stocks	2.8	2.6	2.8	4.2
Area harvested (mln ha)	9.1	8.9	8.9	9.9
Yield (t/ha)	1.36	1.58	1.58	1.57

Source: USDA, January 1991

THE EC GRAIN SITUATION 1990/91

WHEAT

Production

Despite a slight decline in the wheat area, total EC wheat production increased 9.2 MMT (13 percent) between 1987 and 1990. This production increase is largely accounted for by a 13 percent increase in yields, from 4.50 MT/hectare (67 bu/acre) in 1987, to 5.12 MT/hectare (76 bu/acre) by 1990. However, over this same four-year period EC durum wheat production declined about 400,000 MT to 7.1 MMT in 1990, owing to slight decline in yields. The 1991 EC durum area is expected to increase substantially, as higher durum returns result in a displacement of some soft wheat by durum in areas of France and Spain. High producer support prices have stimulated EC wheat production. In February, 1991, for example, EC producers receive about Cdn \$284/MT for soft wheat, and about Cdn \$403/MT for durum wheat. In addition, in 1990/91 EC durum producers also receive a direct durum subsidy of about US \$266 per hectare (about Cdn \$307/ha). As EC producers switch from less remunerative crops such as barley, the total 1991 EC wheat area may be slightly higher than the 1990 area.

Utilization/Quality

Of the almost 81 MMT of EC wheat grown in 1990, about 56 percent is used for human (i.e., milling) and industrial purposes, 39 percent for feed, and 5 percent for other purposes such as seed. Most of the wheat grown in the EC is soft red winter wheat, i.e., sown in the fall and harvested in early summer. (Some spring wheat is grown in the UK and other northern areas of the EC.) Wheat quality can vary from year to year, as well as from country to country. There is growing concern, however, that to compensate for reduced EC support prices, producers are switching from lower-yielding milling to higher-yielding feed wheat varieties. The EC is considering widening the gap between milling and feed wheat intervention prices to encourage increased sowing of milling wheat. EC millers continue to pay huge EC import levies to import high-quality Canadian wheat for blending purposes, despite improved EC wheat varieties, and the application of such technical processes as gluten enhancement.

Trade

Recent increases in EC wheat production have not been matched by increases in domestic wheat consumption, and consequently the EC continues to dispose of wheat surpluses on world markets at great cost to both the EC and other wheat exporters. EC wheat exports doubled to 21 MMT in 1989/90, from 10.7 MMT in 1979/80. Over the past four years alone, the EC's share of world wheat exports increased from 14 percent (14.8 MMT) in 1987/88 to a projected 22 percent (21 MMT) in 1990/91. This represents an increase of 8 percent (or 6.2 MMT) over a period during which time the EC was negotiating at the GATT to liberalize world agricultural trade. The EC granted about 9.1 MMT of soft wheat export licences by the halfway point (i.e., December) in the 1990/91 marketing year. However, the increasing costs of export refunds to the EC budget and shrinking world wheat import prospects may combine to slow the pace of EC wheat exports during the second half of the 1990/91 campaign.

In 1990, continued financial difficulties in various grain importing countries has led some EC countries (i.e., France) to offer these importers generous credit arrangements on grain purchases. The U.S./EC subsidy war, larger world wheat crops, and instability in the Gulf combined to drive wheat export prices this year to their lowest level since mid-1972. This decline is reflected in EC soft wheat export refunds, which have increased from Cdn \$120/MT in April, 1990, to Cdn \$215/MT in early February, 1991.

COARSE GRAINS

Production

While EC coarse grain yields have remained stable between 1987 and 1990, a 7 percent drop in area resulted in production declining 5.6 MMT (7 percent), from 82.4 MMT in 1987 to 76.8 MMT in 1990. In 1990, coarse grain yields were about 4.35 MT/hectare, or 81 bu/acre. Barley is the major coarse grain grown in the EC, accounting for about 60 percent (46 MMT) of total EC coarse grain production in 1990. As with wheat, EC coarse grain producers have benefitted from high support prices. In February, 1991, EC producers receive about Cdn \$270/MT for barley, and about Cdn \$284/MT for corn. As EC corn production recovers from this past year's drought, total EC coarse grain production in 1991 will likely increase. Total EC grain production in 1990 was just under the 160 MMT maximum guaranteed threshold, due largely to this drought-reduced corn crop, which was 5.2 MMT (or 19 percent) lower than the 1989 corn crop of 26.9 MMT.

Trade

In 1989/90, EC coarse grain exports were 7.9 MMT and accounted for about 8 percent of world coarse grain trade. In 1990/91, EC coarse grain exports are expected to decline to 7.4 MMT, due mainly to reduced corn supplies. However, despite this decline, the EC share of world coarse grain exports is expected to reach about 9 percent in 1990/91, owing to a decline in world coarse grain trade. The EC is the world's largest barley exporter, accounting for about 6.6 MMT, or 43 percent, (excluding malt) of world barley exports in 1989/90, and a projected 7 MMT (42 percent) in 1990/91. Declining world barley prices are reflected in EC barley export refunds, which have increased from Cdn \$114/MT in April, 1990, to Cdn \$190/MT in early February, 1991.

Reforming the Common Agricultural Policy (CAP)?

A projected rise in intervention stocks to 18 MMT, combined with rising budgetary costs has forced the EC to again seriously examine reforming the CAP. The EC Commission recently projected that without substantial CAP reform, EC grain production could reach as high as 180 MMT by the end of the century. The aim of the current CAP reforms is to decouple EC agricultural support from production, and link it to direct income support for producers. This shift in support would be structured to favor the EC's small producers, who comprise a majority of the EC's 10 million farmers. (The average farm size in the EC is 13 hectares, or 33 acres.) To reduce the environmental damage caused by intensive agriculture, these reforms likely will also be linked to improved environmental management. If these reforms are implemented, one could expect EC grain production to decline in the future, and as a consequence, reduce the EC's importance as a grain exporter.

EC-12 Wheat Supply/Disposition 1/

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
		- mln tonnes -		
Carryin	17.1	15.7	12.1	12.9
Production	71.4	74.7	78.3	80.6
Total Imports	13.8	13.6	12.5	14.5
(imports from non-EC states)	<u>(2.2)</u>	<u>(2.5)</u>	<u>(2.5)</u>	<u>(3.5)</u>
Total supply	102.3	104.0	102.9	108.0
Domestic use	58.2	59.3	58.2	60.5
Total Exports	28.4	32.6	31.8	31.8
(exports to non-EC states)	<u>(14.8)</u>	<u>(21.0)</u>	<u>(21.0)</u>	<u>(21.0)</u>
Total use	86.6	91.9	90.0	92.3
Ending Stocks	15.7	12.1	12.9	15.7
Area harvested (mln ha)	15.9	15.5	16.3	15.7
Yield (t/ha)	4.5	4.8	4.8	5.1

EC-12 Coarse Grains Supply/Disposition 1/

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
		- mln tonnes -		
Carryin	13.5	13.4	15.1	12.4
Production	82.4	88.1	82.1	76.8
Imports	17.0	15.5	14.4	15.9
(imports from non-EC states)	<u>(5.0)</u>	<u>(3.4)</u>	<u>(4.5)</u>	<u>(5.6)</u>
Total supply	112.9	117.0	111.6	104.6
Domestic use	78.6	79.9	78.8	74.6
Exports	20.9	22.0	20.4	17.0
(exports to non-EC states)	<u>(8.5)</u>	<u>(10.8)</u>	<u>(7.9)</u>	<u>(7.4)</u>
Total use	99.5	101.9	99.2	91.6
Ending Stocks	13.4	15.1	12.4	13.0
Area harvested (mln ha)	19.0	19.2	18.6	17.7
Yield (t/ha)	4.3	4.6	4.4	4.4

1/ Source: USDA World Grain Situation and Outlook (Feb/91)
Note: total import/export figures include EC intra-trade.

THE U.S. WHEAT SITUATION - 1990/91

In light of tight world wheat ending stocks at the end of the 1989/90 crop year, the USDA encouraged U.S. wheat farmers to increase production in 1990/91 by making modifications to the original set-aside provision of a 5% wheat acreage reduction. Indeed for 1990/91 U.S. farmers had an incentive to plant more wheat. The import of set-aside requirements, originally set at 5%, was substantially diminished by allowing farmers to plant up to 105% of their wheat base acreage in return for a drop in deficiency payment protection to a minimum of 85% of their base acres from a maximum of 95%. Although planted acreage remained essentially unchanged, harvested wheat acres rose from 62.2 million acres in 1989/90 to 69.4 in 1990/91, an increase of 11.6%. Combined with an increase in yields from 32.7 bu/acre to 39.5 bu/acre, for an increase of 21%, this resulted in increased production from 55.4 MMT in 1989/90 to 74.5 MMT in 1990/91, an increase of 35%.

This increased wheat production, however, was not uniformly distributed by class. Most of the increased production, almost 70%, was in HRW wheat production which increased by 13.3 MMT from 19.4 MMT to 32.6 MMT in 1990/91. SRW wheat production remained unchanged while WW wheat production increased from 5.3 MMT in 1989/90 to 7.8 MMT in 1990/91, an increase of 46%. Spring wheat production only increased by 19% from 13.3 MMT to 15.9 MMT in 1991/92 compared to durum production which increased from 2.5 MMT to 3.3 MMT, in 1990/91, an increase of 19%.

With such a large increase in production the previously tight wheat supply situation in the U.S., with an ending stocks-to-use ratio of 24.1% in 1989/90, changed dramatically to a burdensome 42.6% when the 1990/91 crop was harvested. This large crop combined with record harvests in the USSR and China resulted in a precipitous drop in U.S. commercial wheat prices to such a point that it became cost-effective to feed wheat rather than corn.

In spite of lower wheat prices in U.S. commercial markets, U.S. farmers are well insulated from the vagaries of the marketplace compared to Canadian, Australian or Argentine farmers. Participation in the 1990/91 wheat program entitles farmers to the regular loan rate of \$1.95/bushel and a maximum deficiency payment of US \$1.28/bushel.

With increased international competition and importers with large crops 1990/91 wheat exports by the U.S. are expected to drop from 33.5 MMT to 27.5 MMT. This drop is expected in spite of very aggressive EEP subsidies in the US \$40-50 range.

In reaction to rapidly accumulating stocks, the U.S. Secretary of Agriculture opened up the Farmer-Owned Reserve (FOR) program for entry of some 300 million bushels or 8.2 MMT, hoping to insulate some wheat from the marketplace and thereby bolster commercial wheat prices. However, the new rules governing the FOR, which were implemented with the new 1990 Farm Bill, are less restrictive than under the previous 1985 Farm Bill. As a result, farmers can remove their grain from FOR at anytime without incurring financial penalties. Therefore, FOR stocks are no longer as insulated as they have been in the past, which means that they have less of an impact in bolstering prices than they had previously.

U.S. WHEAT SUPPLY/DISPOSITION
(June/May Crop Year)

USDA
Proj'd
Feb/91
1990/91

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	
	-mln bushels-			
Beginning Stocks	1,821	1,261	702	537
Production	2,108	1,812	2,037	2,739
Imports	<u>16</u>	<u>23</u>	<u>23</u>	<u>34</u>
Total Supply	3,945	3,096	2,762	3,310
Domestic food	721	715	731	765
Domestic feed/seed	365	260	261	538
Exports	<u>1,598</u>	<u>1,419</u>	<u>1,233</u>	<u>1,025</u>
Total Use	<u>2,684</u>	<u>2,394</u>	<u>2,225</u>	<u>2,328</u>
Ending Stocks	1,261	702	537	982
Farmer-Owned Reserve	467	287	144	20
CCC Inventory	283	190	117	170
Free Stocks(inclu.loan)	511	225	276	792
C/out as % of total use	47.0%	29.3%	24.1%	42.2%
Average Farm Price (\$/bu.)	2.57	3.72	3.72	2.55-2.65
Loan Rate (\$/bu.)	2.28	2.21	2.06	1.95
Planted Acres (mln.acres)	65.8	65.5	76.6	77.3
Harvested Area (mln. acres)	55.9	53.2	62.2	69.4
Yield (Bu./acre)	37.7	34.1	32.7	39.5

-mln. tonnes-

Beginning Stocks	49.6	34.3	19.1	14.6
Production	57.4	49.3	55.4	74.5
Imports	<u>0.4</u>	<u>0.6</u>	<u>0.6</u>	<u>0.9</u>
Total Supply	107.4	84.3	75.2	90.1
Domestic food	19.6	19.5	19.9	20.8
Domestic feed/seed	9.9	7.1	7.1	14.6
Exports	<u>43.5</u>	<u>38.6</u>	<u>33.6</u>	<u>27.9</u>
Total Use	73.0	65.2	60.6	63.4
Ending Stocks	34.3	19.1	14.6	26.7
Farmer-Owned Reserve	12.7	7.8	3.9	0.5
CCC Inventory	7.7	5.2	3.2	4.6
Free Stocks(inclu.loan)	13.9	6.1	7.5	21.6
c/out as % of total use	47.0%	29.3%	24.1%	42.2%
Average Farm Price (\$/Tonne)	94.43	136.69	136.69	93.70-97.37
Loan Rate (\$/Tonne)	83.78	81.20	75.69	71.65
Planted Acres (mln.ha)	26.6	26.5	31.0	31.3
Harvested Area (mln. ha)	22.6	21.5	25.2	28.1
Yield (T/ha.)	2.54	2.29	2.20	2.65

U.S. FARM PROGRAM - WHEAT

	<u>1988</u>	<u>1989</u> - % of base -	<u>1990</u>
Unpaid acreage reduction	27.5	10.0	5.0
Payment-in-kind Diversion	-	-	-
Paid Diversion (winter wheat growers only)	-	-	-
Compliance	85.2	-	-
		- mln acres -	
Base Acres	85.3	82.3	86.5
Idled acres	22.5	9.6	6.6
Long-term Conservation Reserve (Cumulative to Date) <u>1/</u>	7.1	7.6	4.2

1/ wheat acreage diverted from base acreage only, excludes non-base diversion

U.S. Wheat Areas and Production

	<u>Harvested Area</u>			<u>Production</u>		
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	- 000 hectares -			- 000 tonnes -		
Hard Red Winter	n/a	n/a	n/a	24,003	19,351	32,627
Soft Red Winter	n/a	n/a	n/a	12,872	14,939	14,954
White Winter Wheat	n/a	n/a	n/a	5,633	5,298	7,755
Sub-total						
Winter Wheat	16,107	16,798	20,224	42,508	39,588	55,336
Durum	1,152	1,486	1,417	1,220	2,510	3,325
Other Spring	<u>4,266</u>	<u>6,882</u>	<u>6,424</u>	<u>5,592</u>	<u>13,329</u>	<u>15,870</u>
TOTAL	<u>21,525</u>	<u>25,166</u>	<u>28,065</u>	<u>49,320</u>	<u>55,427</u>	<u>74,531</u>

Source: USDA Crop Production Summary January 1991 (Reuters)

Wheat under U.S. Government Price Support

	As at Dec 27			
	1990		1991	
	- mln bushels - (mln tonnes)			
Farmer Owned Reserve	157	(4.28)	27	(0.73)
CCC Inventory (As at Feb 1)	145	(3.93)	145	(3.94)
Loan	<u>67</u>	<u>(1.83)</u>	<u>336</u>	<u>(9.14)</u>
Total	369	(10.04)	508	(13.81)

US Wheat Exports by Class Excluding Products
(June/May Crop Year)

	<u>1988/89</u>	<u>1989/90</u> <u>2/</u>	<u>Jun 1/89-</u> <u>Feb 15/90</u>	<u>Jun 1/90-</u> <u>Jan 3/91</u>
	- 000 tonnes -			
Hard Red Winter	16,738	9,401	5,997	5,341
Soft Red Winter	8,519	9,247	8,663	4,680
Hard Red Spring	5,175	7,582	4,812	3,672
White Wheat	6,594	5,008	3,763	3,833
Durum	<u>470</u>	<u>1,403</u>	<u>962</u>	<u>1,000</u>
Total Wheat	38,426 <u>1/</u>	33,453 <u>2/</u>	24,765 <u>3/</u>	18,847 <u>4/</u>

1/ includes 930,200 tonnes of products

2/ includes 812,000 tonnes of products

3/ includes 568,400 tonnes of products

4/ includes 321,100 tonnes of products

U.S. Export Enhancement Program

Under the 1985 Farm Bill the Export Enhancement Program (EEP) was funded at US \$1.0 billion over FY 1986-88. A provision allowed an additional \$0.5 billion funding for this program. An additional \$1 billion for the EEP was provided under new trade legislation, bringing the total funding available to \$2.5 billion, and extending the program through 1990. Funding for the FY. 1990 program was set at \$566.0 million and \$425 million for the FY '91 year. However, the USDA has taken such an aggressive approach with EEP subsidies for wheat that it has expended 85% of its EEP funds in less than six months. As a result, the U.S. Administration has requested additional funds for EEP in the present FY91 in order that the EEP budget be raised to US \$900 million. In addition, they have requested US \$1.2 billion for the FY92 which starts on October 1, 1991. The U.S. is signalling that the EC-U.S. subsidy war is not yet over.

The EEP program offers generic certificates for government-owned commodities as bonuses to exporters for commercial sales to targeted markets. Principal commodities offered under the program include wheat, wheat flour, semolina, barley, barley malt, dairy cattle, meat and poultry products and table eggs. As of February 15, 1991, wheat and durum allocations have reached 92.7 MMT with major offerings to the USSR, Algeria, China, Egypt, Morocco, Philippines, Poland, Tunisia, Iraq, India, Mexico, and West Africa. Sales under these offers total 83.8 MMT at an average bonus of US \$27.96/tonne. Wheat flour allocations totalled 3.9 MMT with consummated sales of 2.8 MMT. The average bonus to exporters on wheat flour was US \$81.49/tonne.

New wheat allocations during 1990/91 crop year are as follows:

USSR	2.00	MMT	Jordan	0.25	MMT
Philippines	1.20	MMT	Malta	0.05	MMT
Trinidad/Tobago	0.13	MMT	Yemen	0.15	MMT
Colombia	0.05	MMT	Egypt	2.00	MMT
Morocco	1.20	MMT	Finland	0.05	MMT
W.&C. Africa	0.50	MMT	Norway	0.10	MMT
Tunisia	0.50	MMT	China	1.50	MMT
Sri Lanka	0.40	MMT	Turkey	0.20	MMT
Brazil	0.30	MMT			

U.S. AND WORLD WHEAT PRICE OUTLOOK - 1990/91

World wheat trade in 1990/91 is expected to decrease to 93.9 MMT compared to 96.1 MMT in 1989/90. World wheat production is forecast to increase by 10% in 1990/91 to 589.0 MMT from 536.8 MMT in 1989/90. Overall world wheat stocks are expected to increase which has resulted in downward pressure on world wheat prices. The world wheat stocks to utilization ratio will rise in 1990/91 from 22.1% in 1989/90 to 25.8%. EC wheat exports are forecast to remain unchanged in 1990/91. U.S. wheat exports (July/June) are projected to decline by 6.0 MMT in 1990/91. 1990/91 will be the first year since 1986/87 in which world wheat consumption will not exceed world wheat production.

With historically tight supplies of wheat, prices remained firm until the first quarter of 1990. At that time, from January to May 1990, U.S. HWORD FOB Gulf prices fluctuated from US \$157-172/tonne. As it became apparent that a world record wheat crop was in the making, prices started a free fall in June 1990 and stabilized at the U.S. \$113 level in November and December of 1990. Prices dropped more than anticipated due to substantial increases in production not only in the exporting countries but also in the importing countries.

International export prices suffered even more as the EC and U.S. price war was reflected in soaring export subsidies. U.S. EEP wheat subsidies which were in the US \$10-20/tonne range in the summer of 1990 soared to the US \$40-50/tonne level as the U.S. purchased its market share of international trade through the use of historically high export bonus levels. With the continuation of GATT trade talks into March 1991 the prospects of lower EEP bonuses is not imminent. At the rate the U.S. is expending its 1991 EEP budget of US \$425 million it is expected that an additional US \$425 million would be required to maintain that pace until the end of 1990/91 crop year. Indeed, the U.S. Administration has requested an additional US \$475 million for EEP in FY91 to raise the total budget to \$900 million. For FY92 a request for \$1.2 billion in EEP pending has been made.

The Iraqi war has created uncertainty but its impact on the direction of wheat prices in the short term is indeterminate. In the longer term if it raises fuel prices and pushes the world into a recession it could result in even lower wheat prices.

FOB Export Price Quotes on February 22, 1990

<u>WHEAT</u>	<u>Delivery Months</u>	
	<u>Mar/91</u>	<u>Jul/91</u>
	- US \$/MT -	
U.S. Soft Red Winter (Gulf)	106.08	109.05
U.S. Hard Winter Ordinary (Gulf)	117.03	116.66
Australian Standard White	122.00	125.00
Argentine Wheat	77.00	N/A
French Soft Wheat	82.50	N/A
U.S. Dark Northern Spring 14 (St. L.)	116.92 <u>1/</u>	N/A
U.S. 3 Hard Amber Durum (St. L.)	134.85 <u>1/</u>	N/A

1/ April/91 quote.

THE WORLD COARSE GRAINS OUTLOOK - 1990/91

World coarse grain production for 1990/91 is estimated by the USDA at 825.8 MMT, up 3% from the previous year. The largest increases in production occurred in the U.S., Canada, and the USSR. The U.S. coarse grain crop rose 4% to 230.6 MMT, while Australia, Canada and USSR's production increased by about 11% and 9% respectively. South Africa, Thailand, the EC-12, and Eastern Europe were the only major producers to experience a decrease in coarse grain production.

World trade in coarse grain is projected to decrease 14.1 MMT to 85.4 MMT in 1990/91. Only Canada, Argentina, and China are projected to have increased exports in 1990. Coarse grain imports are forecast to increase in Algeria, Saudi Arabia, Egypt, Israel and the EC-12.

The USDA projects 1990/91 world barley trade at 16.5 MMT an increase of 6% from 1989/90. Exports from Canada and the EC-12 are forecast to increase. Saudi Arabia will remain the largest barley importer at 4.0 MMT, followed by the USSR at 2.0 MMT.

World coarse grain utilization in 1990/91 is projected to decrease slightly to 828 MMT. Utilization will exceed production for the fourth consecutive time since 1983/84. Ending stocks in 1990/91 are therefore expected to decrease slightly to 121.0 MMT.

U.S. corn loan rates will decrease from U.S. \$1.65/bushel in 1989/90 to U.S. \$1.57/bushel in 1990/91.

During the course of the crop year, wheat prices have fallen relative to coarse grains. This has resulted in the increased use of wheat for feed. At the international level, export subsidized wheat has been selling below corn prices and has displaced U.S. corn exports. As a result, the tight supply situation in coarse grains has helped to bolster wheat prices.

WORLD COARSE GRAINS SUPPLY/DISPOSITION
(October/September)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	-mln tonnes-			
Production	793.9	731.6	803.5	825.8
Utilization	814.9	797.7	828.2	827.8
Trade	83.2	94.5	99.5	85.4
Ending Stocks	213.0	146.9	123.0	121.0
Stocks/Utilization	26.1%	18.4%	14.9%	14.6%

WORLD COARSE GRAINS PRODUCTION & TRADE
(October/September)

<u>Production</u>	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	-mln tonnes-			
U.S.	217.0	149.7	221.4	230.6
Canada	25.5	19.7	23.5	26.0
Australia	7.2	6.7	6.9	6.8
Argentina	13.1	7.3	8.3	9.8
S.Africa	7.9	13.0	10.3	6.8
Thailand	2.9	4.4	4.2	4.0
EEC-12	82.4	88.1	82.1	76.8
USSR	113.7	97.5	104.8	114.0
E.Europe	63.8	61.3	68.1	61.4
China	95.8	94.2	94.6	104.7
Others	<u>164.6</u>	<u>189.7</u>	<u>179.3</u>	<u>184.9</u>
World Total	793.9	731.6	803.5	825.8
<u>Exports</u>				
U.S.	53.5	61.3	69.1	54.8
Canada	4.3	4.4	4.5	4.9
Australia	2.5	1.9	2.8	1.9
Argentina	5.3	3.5	4.5	4.9
S.Africa	0.6	2.0	2.9	0.3
Thailand	0.8	1.4	1.3	0.9
EEC-12	8.5	10.8	7.9	7.4
China	4.2	4.9	3.5	6.3
Others	<u>3.5</u>	<u>4.3</u>	<u>3.0</u>	<u>4.0</u>
World Total	83.2	94.5	99.5	85.4
<u>Imports</u>				
EEC-12	5.0	3.4	4.5	5.6
USSR	10.4	22.5	22.5	12.0
Japan	22.4	21.5	21.7	20.9
E.Europe	4.1	5.0	5.1	4.4
China	<u>41.3</u>	<u>42.1</u>	<u>45.7</u>	<u>42.5</u>
World Total	83.2	94.5	99.5	85.4

Source: United States Department of Agriculture, February 1991.
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THE CANADIAN BARLEY OUTLOOK

Barley normally accounts for about 20% of world coarse grain production and 15-22% of the world coarse grain trade. Canada and the EC are the world's top two barley exporters. Canada's barley exports are projected to decrease by 0.4 MMT in 1990/91. Canadian barley acreage decreased to 4.6 million hectares in 1990/91. Yields increased to 2.96 tonnes per hectare from 2.51 in 1989/90. As a result of the increase in yield, production increased 15% to 13.5 MMT in 1990/91. Ending stocks for the 1990/91 crop year are projected to increase to 3.2 MMT.

Canada: Barley Supply/Disposition (August/July Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u> 2/	<u>1990/91</u> 3/
	- mln tonnes -			
Beginning Stocks	3.2	3.7	2.8	2.1
Production	<u>14.0</u>	<u>10.2</u>	<u>11.7</u>	<u>13.5</u>
Total Supply	17.2	13.9	14.5	15.6
Domestic Use	8.9	8.2	7.9	8.3
Exports 1/	<u>4.6</u>	<u>2.9</u>	<u>4.5</u>	<u>4.1</u>
Total Use	<u>13.5</u>	<u>11.1</u>	<u>12.4</u>	<u>12.4</u>
Ending Stocks	<u>3.7</u>	<u>2.8</u>	<u>2.1</u>	<u>3.2</u>
Area (mln ha)	5.0	4.1	4.7	4.6
Yield (t/ha)	2.79	2.46	2.51	2.96

1/ Including 0.2 MMT of malt (grain equivalent).

2/ Agriculture Canada Forecast, December 1990

Source: Agriculture Canada December 1990

THE U.S. CORN SITUATION - 1990/91

In January, USDA estimated the 1990/91 U.S. corn production at 7,933 million bushels, which is 5% above last year's corn crop. Domestic feed use is expected to increase by 9% and exports are forecast to decrease 22% from last year. Given a decrease in corn use and total supply, corn stocks are forecast to be 1,260 million bushels compared to last years figure of 1,345 million bushels.

U.S. FARM PROGRAM - CORN

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
		- % of base -		
Unpaid acreage reduction	20	20	10	10
Payment-in-kind	-	-	-	-
Paid Diversion (optional)	15	10	-	-
Compliance	89.8	86.9%	81.0%	76.0%
		- mln acres -		
Base Acres	81.5	83.4	82.7	82.6
Idled acres	23.1	20.5	10.8	9.8
Long-term Conservation Reserve	2.2	2.9	2.9	-

The unpaid acreage reduction program requirement was not changed from 10% in 1989/90. There will not be any optional paid diversion program this year. The loan rate is set at \$1.57/bushel down from \$1.65/bushel. Target prices are being lowered again to \$2.75/bushel. The USDA's projected deficiency payment is \$0.90/bushel, advance payments are set at 40% of this (36¢/bushel).

U.S. CORN SUPPLY/DISPOSITION
(September/August Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	USDA Proj'd Feb/91 <u>1990/91</u>
	-mln bushels-			
Beginning Stocks	4,882	4,259	1,930	1,345
Production	7,131	4,929	7,525	7,933
Imports	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total Supply	12,016	9,191	9,458	9,281
Domestic feed	4,812	3,981	4,456	4,850
Domestic other	1,229	1,252	1,290	1,320
Exports	<u>1,716</u>	<u>2,028</u>	<u>2,367</u>	<u>1,850</u>
Total Use	<u>7,757</u>	<u>7,261</u>	<u>8,113</u>	<u>8,020</u>
Ending Stocks	4,259	1,930	1,345	1,261
Farmer-Owned Reserve	1,127	725	387	-
CCC Inventory	835	363	233	400
Free Stocks(inclu.loan)	2,297	842	725	861
C/out as % of total use	54.9%	26.6%	16.6%	15.7%
Average Farm Price (\$/bu.)	1.94	2.54	2.36	2.20-2.40
Loan Rate (\$/bu.)	1.82	1.77	1.65	1.57
Planted Acres (mln.acres)	65.7	67.7	72.2	74.2
Harvested Area (mln. acres)	59.5	58.2	64.7	67.0
Yield (Bu./acre)	119.8	84.6	116.3	118.5

	-mln tonnes-			
Beginning Stocks	124.0	108.2	49.0	34.2
Production	181.1	125.2	191.1	201.5
Imports	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Total Supply	305.2	233.5	240.2	235.7
Domestic food	122.2	101.1	113.2	123.2
Domestic feed/seed	31.2	31.8	32.8	33.5
Exports	<u>43.6</u>	<u>51.5</u>	<u>60.1</u>	<u>47.0</u>
Total Use	<u>197.0</u>	<u>184.4</u>	<u>206.1</u>	<u>203.7</u>
Ending Stocks	108.2	49.0	34.2	32.0
Farmer-Owned Reserve	28.6	18.4	9.8	0.0
CCC Inventory	21.2	9.2	5.9	10.2
Free Stocks(inclu.loan)	58.3	21.4	18.4	21.9
c/out as % of total use	54.9%	26.6%	16.6%	15.7%
Average Farm Price (\$/Tonne)	76.37	99.99	92.91	86.61-94.48
Loan Rate (\$/Tonne)	71.65	69.68	64.96	61.81
Planted Acres (mln.ha)	26.6	27.4	29.2	30.0
Harvested Area (mln. ha)	24.1	23.6	26.2	27.1
Yield (T/ha.)	7.52	5.32	7.30	7.43

U.S. BARLEY SUPPLY/DISPOSITION
(June/May Crop Year)

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	USDA Proj'd Feb/91 <u>1989/90</u>
	-mln bushels-			
Beginning Stocks	336	321	196	160
Production	522	290	404	419
Imports	<u>11</u>	<u>11</u>	<u>14</u>	<u>11</u>
Total Supply	869	622	614	590
Domestic feed	253	166	185	175
Domestic other	174	181	180	185
Exports	<u>121</u>	<u>79</u>	<u>89</u>	<u>90</u>
Total Use	<u>548</u>	<u>426</u>	<u>454</u>	<u>450</u>
Ending Stocks	321	196	160	140
Farmer-Owned Reserve	110	42	1	
CCC Inventory	50	31	19	
Free Stocks(inclu.loan)	161	123	140	
C/out as % of total use	58.6%	46.0%	35.2%	31.1%
Average Farm Price (\$/bu.)	1.81	2.8	2.42	2.10-2.20
Loan Rate (\$/bu.)	1.49	1.44	1.34	1.27
Planted Acres (mln.acres)	11.0	9.7	9.2	8.2
Harvested Area (mln. acres)	10.0	7.5	8.3	7.5
Yield (Bu./acre)	52.4	38.6	48.6	55.9
<hr/>				
	-mln. tonnes-			
Beginning Stocks	7.3	7.0	4.3	3.5
Production	11.4	6.3	8.8	9.1
Imports	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.2</u>
Total Supply	18.9	13.5	13.4	12.8
Domestic food	5.5	3.6	4.0	3.8
Domestic feed/seed	3.8	3.9	3.9	4.0
Exports	<u>2.6</u>	<u>1.7</u>	<u>1.9</u>	<u>2.0</u>
Total Use	<u>11.9</u>	<u>9.3</u>	<u>9.9</u>	<u>9.8</u>
Ending Stocks	7.0	4.3	3.5	3.0
Farmer-Owned Reserve	2.4	0.9	0.0	
CCC Inventory	1.1	0.7	0.4	
Free Stocks(inclu.loan)	3.5	2.7	3.0	
c/out as % of total use	58.6%	46.0%	35.2%	31.1%
Average Farm Price (\$/Tonne)	83.13	128.60	111.15	96.45-101.04
Loan Rate (\$/Tonne)	68.44	66.14	61.55	58.33
Planted Acres (mln.ha)	4.5	3.9	3.7	3.3
Harvested Area (mln. ha)	4.0	3.0	3.4	3.0
Yield (T/ha.)	2.81	2.08	2.62	3.01

Corn under U.S. Government Price Support

	As at February 13, 1991			
	1990		1991	
	- mln bushels - (mln tonnes)			
Farmer owned Reserve (FOR)	424	(10.78)	368	(9.35)
CCC Inventory (As at Feb 1)	581	(14.76)	195	(4.95)
Loan	<u>780</u>	<u>(19.82)</u>	<u>932</u>	<u>(23.67)</u>
Total	1,785	(45.36)	1,495	(37.97)

U.S. Coarse Grain and Soybean Exports

	Crop Year	Crop Year	Jun 1/88 to	Jun 1/89 to
	<u>1988/89</u>	<u>1989/90</u>	<u>Feb 15/90</u>	<u>Feb 14/91</u>
	- 000 tonnes -			
Barley	1,615	1,813	1,439	1,627
Oats	-	2	2	2
	Crop Year	Crop Year	Sep 1/89 to	Sep 1/90 to
	<u>1988/89</u>	<u>1989/90</u>	<u>Feb 15/90</u>	<u>Feb 14/91</u>
	- 000 tonnes -			
Corn	52,578	58,726	29,408	19,406
Sorghum	7,534	6,906	3,106	2,449
Soybeans	14,763	16,816	9,107	7,442

U.S. AND WORLD COARSE GRAIN PRICE OUTLOOK 1990/91

The 1988/89 world coarse grain price outlook was dominated by the drop in world coarse grain production and the severe restriction in use of the U.S. Export Enhancement Program for barley. In 1989/90 world coarse grain production increased 71.9 MMT to 803 MMT.

World coarse grain production in 1990/91 is estimated at 826 MMT which represents a 3% increase compared to the substantial 10% increase in wheat.

World utilization of coarse grains is expected to be higher than production for the fourth year in a row. This will result in the fifth consecutive year of lower coarse grains ending stocks. The relatively tighter situation in coarse grains has meant that prices have not fallen as dramatically as for wheat prices. However, with EEP subsidized wheat prices lower than for corn, this has pressured U.S. corn exports and has resulted in lower U.S. corn prices. U.S. FOB Gulf corn has fallen from May/June levels of U.S. \$122/tonne to \$104 in November/December.

Strong international demand for barley combined with tight supplies, has helped maintain U.S. FOB PNW barley prices around the U.S. \$120/tonne level. However, international export prices have been pressured by rising barley EEP subsidies. From U.S. \$15/tonne in the summer of 1990 EEP bonuses have soared to \$50/tonne in spite of tight supplies.

FOB Export Quotes on Jan. 14, 1990

	<u>Delivery Months</u>	
	<u>Mar/91</u>	<u>Jul/91</u>
	- US \$/tonne -	
U.S. 3 Yellow Corn (Gulf)	107.16	109.05
Argentine Corn (Apr/90 quote)	99.70	N/A
2 U.S. Barley (Portland)	122.17	N/A
U.K. Feed Barley	87.00	N/A
French Barley (Feed)	92.00	N/A

ECONOMIC FACTORS

Exchange Rate

Since January, 1990, the U.S. dollar has fallen about 7.8% against the Japanese yen, and 10.8% against the West German mark and 14.6% against the British pound. A weaker U.S. dollar narrows the U.S. trade imbalance by raising the cost of imports while making U.S. goods more competitive on overseas markets. Indeed, the U.S. merchandise trade balance narrowed to US \$107 billion in 1990, the smallest annual deficit in seven years.

A weaker U.S. dollar means less expensive grains to importers in terms of their own currencies. Changes in wheat prices, however, are not expected to alter demand for wheat in the short run because consumers in many importing countries are insulated from world wheat market prices, i.e. the demand for wheat is inelastic. Changes in the U.S. dollar have a negligible effect on Japanese wheat imports, since demand is relatively stable and imports are controlled by the Japanese Food Agency. A weaker dollar lowers the world wheat price relative to the internal EC price and, therefore raises the level of subsidy required to export EC wheat. Wheat import demand in the EC is not expected to change. Since the EC is a net exporter of wheat, the higher costs of the export rebates due to the weaker dollar and more importantly, to the overall decrease in world wheat prices, has increased budgetary pressures in the EC.

Exchange Rate

	<u>Japanese Yen</u>	<u>German Mark</u>	<u>British Pound</u>	<u>Brazilian Cruzado</u>
		- Per U.S. Dollar -		
February, 1988	129.16	1.6976	0.5693	0.908
February, 1989	127.77	1.8521	0.5702	1.000
February, 1990	145.53	1.6760	0.5896	23.661 <u>1/</u>
February 22, 1991	132.17	1.5055	0.5147	224.80
% Change (from Feb 1990)	(9.2%)	(10.2%)	(12.7%)	(850%)

1/ Change in currency announced January 1989

Interest Rates

U.S. prime rate is forecast to average 9.0% in 1991 compared to the current rate of 9.0%, which is a drop of 1% point over the 1990 level of 10%.

	<u>Total Foreign Debt</u>				
	<u>1986</u>	<u>1987</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	- bln U.S. \$ -				
Brazil	99	106	101	97	95
Mexico	91	98	89	80	78
Venezuela	33	31	30	30	30

Source: World Bank World Debt Tables

Ocean Freight Rates

Ocean freight rates make up part of the CIF price of grain to the buyer. Therefore, changes in ocean freight can affect the demand for grain. Ocean freight rates for wheat (US Gulf to Rotterdam, 50,000 tonne vessel) have increased from US \$8.15/tonne in January 1986 to \$14.00/tonne in February 1989. As of February 1991 those rates have remained unchanged.

Oil Prices

The relatively steady world oil prices of 1988 and 1989 helped to improve the financial situation of net oil importing countries, such as Japan and Brazil. Low oil prices, however, mean less revenue to net oil exporters such as Mexico, Algeria and the U.S.S.R. World oil prices since the beginning of the Iraqi invasion of Kuwait have been on a rollercoaster ride, with a trading range of US \$15-40 per barrel. The fundamentals in the oil market indicate stable to lower prices in the short term as the war in Iraq comes to an end. Longer term it appears that the Saudis will have to lower production from their present levels and the USSR may become an importer so it rebuilds its oil-producing infrastructure. Overall, it seems that the price of oil is set to continue to trade in a fairly wide range over the next few years.

West Texas Sour Oil (Spot Market)

<u>U.S. \$/barrel</u>	
May 4, 1987	18.35
Aug 24, 1987	18.60
Oct 12, 1987	18.77
May 9, 1988	16.40
Feb 6, 1989	16.18
Feb 27, 1991	18.35

Source: Wall Street Journal